TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1118 - SB 1415

March 12, 2023

SUMMARY OF BILL: Changes the definition of "base tax revenues" under the *Convention Center and Tourism Development Financing Act* to not include local sales or use taxes collected from dealers with no physical presence in the state in any Tourist Development Zone (TDZ).

FISCAL IMPACT:

Other Fiscal Impact – The proposed legislation will result in the shift of at least $52,663,000 in local revenue from other general purposes to debt repayment of the Sevierville, Pigeon Forge, Knoxville, Chattanooga, Great Pyramid, and Nashville TDZs in FY23-24 and subsequent years. The precise end date of any such reallocation cannot be determined with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 7-88-106, if a municipality or public authority has financed, constructed, leased, equipped, renovated or acquired a qualified public use facility within a TDZ, then state and local sales and use taxes shall be apportioned and distributed to the municipality in an amount equal to the incremental increase in state and local sales and use tax revenue derived from the sale of goods, products and services within the tourism development zone in excess of base tax revenues.
- Currently, Tenn. Code Ann. § 7-88-103(1)(A) defines base tax revenues as the revenues generated from the collection of state and local sales and use taxes from all businesses within the applicable TDZ as of the end of the fiscal year immediately prior to the year in which the municipality or public authority is entitled to receive an allocation of tax revenue, adjusted annually after the first year by a percentage equal to the percentage of change in the collection of state and local sales and use taxes derived from the sale of goods, products and services for the entire county in which the public use facility is located for the preceding fiscal year.
- Pursuant to Tenn. Code Ann. § 7-88-103(1)(B), local sales or use taxes collected from dealers with no physical presence in the state are not considered "base tax revenues" for the Graceland TDZ. The proposed legislation expands the non-inclusion of these local sales or use taxes to "base tax revenues" in all TDZs.
- Lowering the base tax revenues by excluding the local sales and use taxes collected from businesses with no physical presence in the state will result in shifts in local revenue by shifting funds from other general purposes to TDZs.

- Based on information provided by the Department of Revenue (DOR), recalculating FY21-22 TDZ distributions to exclude local sales and use taxes collected from businesses with no physical presence in the state would have resulted in a shift in local revenue from general purposes to TDZ debt repayment in the amount of:
  - $2,409,322 in the Sevierville TDZ
  - $4,402,731 in the Pigeon Forge TDZ
  - $2,601,903 in the Knoxville TDZ
  - $4,582,238 in the Chattanooga TDZ
  - $6,394,585 in the Memphis – Great Pyramid TDZ
  - $32,272,253 in the Nashville TDZ
  - $52,663,032 ($2,409,322 + $4,402,731 + $2,601,903 + $4,582,238 + $6,394,585 + $32,272,253) in all TDZs where local sales or use taxes collected from dealers with no physical presence in the state are currently considered "base tax revenues."
- The proposed legislation would result in the redistribution of local option sales tax revenues from general purposes to TDZ debt repayment in an amount exceeding $52,663,032 in FY23-24 and subsequent years.
- Such allocations will cease to happen upon the occurrence of one of the outlined criteria. The precise timing of an end to any of the individual allocations cannot be determined with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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